



Certificate Course on **EXPORT IMPORT**

13. Risk Management

&

Insurance Coverage for Exports



**MAHARASHTRA STATE
AGRICULTURAL MARKETING BOARD**



Export Import Management

EXPORT RISK MANAGEMENT

Risk Management & Insurance Coverage

- Credit risk – Non realisation of payment due from importer
- Reasons for occurrence of credit risk -
 - Insolvency
 - Default
 - Fraud
 - Unwillingness to accept the goods by buyer

Risk Management & Insurance Coverage

- **Export Insurance :**

- a. ***Payment***

- a. Exchange risk – Covered by currency risk management tools- Hedging

- b. Payment risk – Covered by credit insurance – ECGC

- ▶ ***Goods***

- ▶ Any damage / natural calamity- Covered by marine insurance- GIC

Risk Management & Insurance Coverage

- **Risks covered by ECGC :**

- A. Commercial Risks**

- A. Insolvency of buyer / LC opening Bank
- B. Protracted default by the buyer - non-payment at the end of the Waiting Period of all or part of an insured receivable by a Buyer that is not Insolvent.
- C. Repudiation by buyer- disputing a contract and refusing to honor it.

- B. Political Risks**

- A. War / Social commotion
- B. Import restrictions
- C. Exchange transfer delay / Embargo

Risk Management & Insurance Coverage

- **Risks not covered / considered as Credit Risks :**
 - Non fulfillment of contractual obligations by exporter.
 - Default or insolvency or omission by agent of exporter or of importer.
 - Buyer's failure to obtain necessary approvals for imports.
 - Inherent nature of goods
 - Exchange fluctuations
 - Physical loss / damage to goods.

Risk Management & Insurance Coverage

What is Export Credit Insurance?

- ▶ Export credit insurance in India is designed to protect the receivables of [an exporter](#). It means that the insurance tool provides an assurance to the exporter about receiving the amount due from the foreign customer. The insurance pays a portion of the assured value in case the customer or the foreign bank is not able to pay it due to political, commercial, or any other reasons.
- ▶ Export credit insurance is provided by India's ECGC. Export Credit Guarantee Corporation Limited, it is an open cover to credit insurance & a mandatory requirement for it. The ECGC policy was formed in 1957 by the Government of India to promote trade in the country by providing credit risk insurance and related services to exporters. The ECGC is under the auspices of the Ministry of Commerce and has a board comprising members from the RBI, the government, and people from banking, export and insurance sectors.

Risk Management & Insurance Coverage

What Export Credit Insurance does for exporters?

Why this is an indispensable asset for anybody shipping goods overseas:

- ▶ Export risk and Insurance is covered in the export credit insurance policy.
- ▶ With a credit insurance policy in place, you don't have to worry about the timely recovery of sales revenue.
- ▶ Credit insurance saves you the time you might spend on credit risk management and assessment, freeing you to focus on business development and growth.
- ▶ It also enables you to be flexible with your credit period and/or your credit line, increasing them if necessary.
- ▶ Giving buyers greater flexibility with credit will encourage new buyers to do business with you and existing buyers to buy more from you. Thus, export credit can help you increase your sales.

Risk Management & Insurance Coverage

How does Export Credit Insurance work?

As an exporter, it is essential to get yourself export credit insurance for a variety of reasons. Here is a simplified version of how things work in the process:

- With the backup provided by credit insurance, you can also explore opportunities in new markets with confidence. Credit insurance often covers up to 85% of the invoice you raise, allowing you to take more chances and tackle new markets without worrying unduly about losses.
- Export credit insurance companies also provide additional benefits like guidance and information on debts and customers, and support in debt recovery.
- Having credit insurance can also boost your chances of arranging for [export finance](#). When you try to finance your export business, if the lender is assured that your invoices are covered by credit insurance, arranging for finance becomes easier because of reduced risk.

Risk Management & Insurance Coverage

What's ECGC's Export Credit Insurance scheme & its role in the export business?

- ▶ The main ECGC functions are multifaceted, within the scope of export credit risk management.
- ▶ Its primary role is to provide a variety of risk insurance products that cover losses and bad debts on exports.
- ▶ The ECGC also offers export credit insurance cover to banks and financial institutions so that they can provide trade-risk coverage to exporters.
- ▶ The Corporation also offers overseas investment insurance to Indian companies that are entering into international joint ventures, in the form of equity or loans.
- ▶ The ECGC policy also provides guidance on export-related activities to exporters, including credit rating-based information on different countries.
- ▶ It assists exporters with debt recovery and checking the creditworthiness of overseas customers.
- ▶ There is no GST payable in insurance premium.

Risk Management & Insurance Coverage

Short-term, turnover-based services

- **Shipments Comprehensive Risks Policy (SCR)** : [SCR](#) is a 12-month policy available to exporters with a turnover of over Rs. 500 crores.
- **Small Exporters Policy (SEP)** : [SEP](#) is available for exporters with a turnover of Rs. 5 crore or below and has a maximum risk coverage that costs below Rs. 2 crores.
- **Specific Shipment Policy (SSP)** : [SSP](#) is valid for shipments made within the policy period and for up to 80% of the shipment value.
- **Services Policy (SRC)** : [SRC](#) is for single, long-term services contracts. It is suited for Indian companies who agree with foreign principals to provide technical or professional services.
- **Export Turnover Policy (ETP)** : [ETP](#) is for large exporters who contribute not less than Rs. 20 lakhs in annual premium.
- **Exports (Specific Buyers) Policy (BWP)** : [BWP](#) provides the same coverage as SCR, ETP, etc. against shipment sent to a specific buyer.
- **Consignment Exports Policy (Stockholding Agent)** : Covers shipments sent by the exporter to their overseas agents on a consignment **export** basis.

Insurance Coverage for Exports

Cargo Risk :

- ▶ Storms, fire, explosion, leakage, etc.

Solution :

- ▶ Losses arising out of sea perils are covered by marine policies of insurance company - GIC.

Insurance Coverage for Exports



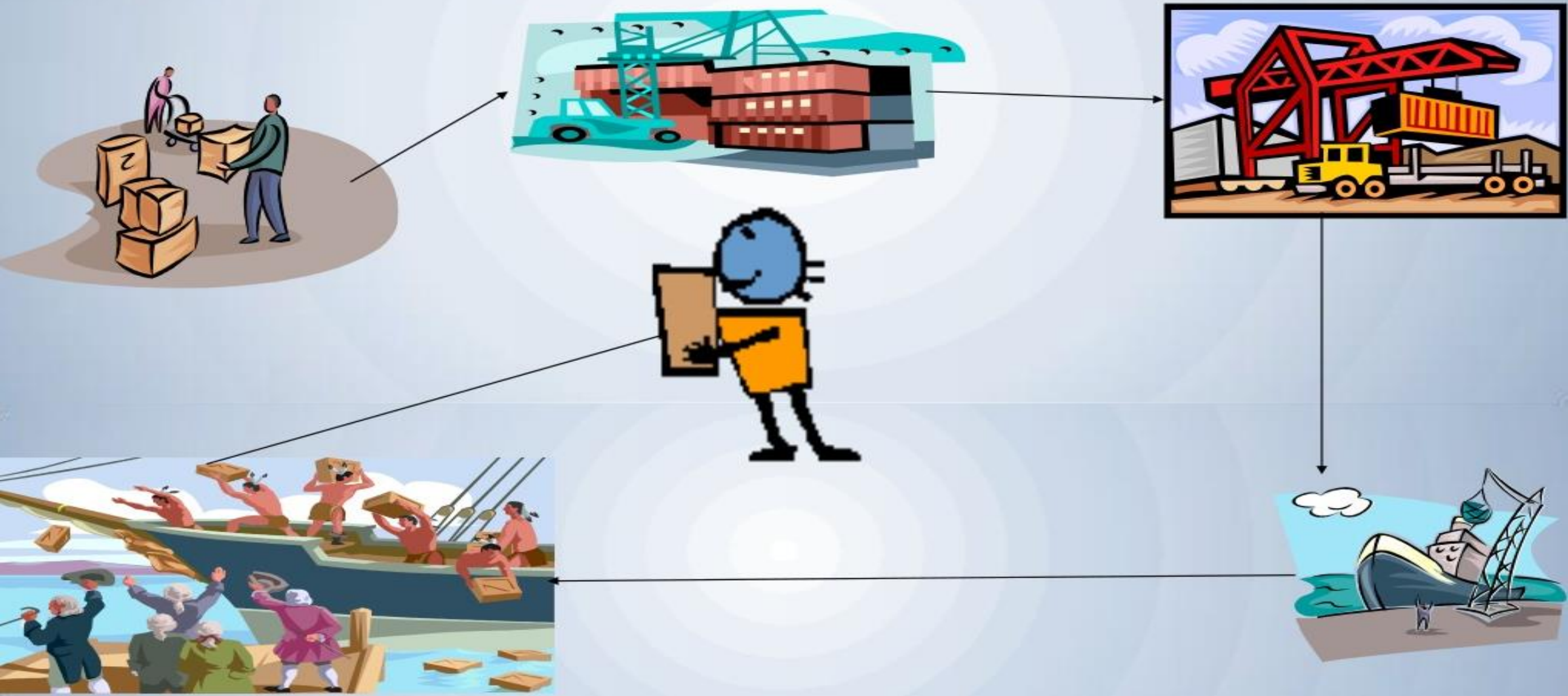
Insurance Coverage for Exports

MARINE INSURANCE – A FACILITATOR OF TRADE

- Trade involves movement of goods. Goods in transit are exposed to multiple perils at every stage-loading/ unloading, transit, storage.
- Cargo insurance enables traders to venture their capital more freely, thus expanding the scope of their operations.
- Banks would not finance overseas trade without cargo insurance.
- Marine policy/certificate is often lodged with the bank as collateral security.
- Who buys insurance- whether buyer or seller- is determined by the sales contract
- Common trade terms- FOB (Free on Board), C & F (Cost & Freight), CIF (Cost, Insurance & Freight) - INCOTERMS

Insurance Coverage for Exports

MARINE CARGO – WAREHOUSE TO WAREHOUSE



COMMODITY CLASSIFICATION FOR UNDERWRITING

CARGO CLASSIFIED INTO 5 CATEGORIES FOR UNDERWRITING PURPOSE:

- CATEGORY A - VERY LOW RISK*
- CATEGORY B - LOW RISK*
- CATEGORY C - MEDIUM RISK*
- CATEGORY D - HIGH RISK*
- CATEGORY E - EXTREMELY HIGH RISK*

CATEGORISATION HAS BEEN MADE CONSIDERING THE DAMAGES THAT CAN HAPPEN TO THE CARGO WHILE IN TRANSIT



Insurance Coverage for Exports

Reasons for Insurance

- Legality
- Financial
- Pollution
- 3rd parties
- Stowaways
- Dangerous goods
- War
- Piracy; Gulf of Aden, Somalia
- Acts of God

Insurance Coverage for Exports

Types of Perils :

a. Marine perils- These could be natural occurrences or manmade mishaps. It includes earthquakes, storms, lightning, sea water entering vessel. Manmade mishaps includes fire, smoke, collisions.

b. Extraneous perils- These are incidental perils due to falls in loading, carrying, unloading.

c. War perils- Losses due to war including civil war.

Insurance Coverage for Exports

Features of Marine Insurance-

1. Export-Import Cargo (Marine) Insurance
2. Insurance Policy and Cover Note
3. Insurance Policy versus Insurance Certificate
4. Open Policy versus Specific Policy
5. Advantages of an Open Policy Over a Specific Policy

Insurance Coverage for Exports

Export-Import Cargo (Marine) Insurance

The term cargo insurance, popularly known as marine insurance, applies to all modes of transportation. The need for export (or import) cargo insurance often differs from exporter to exporter (or importer to importer) and from consignment to consignment. Unless the insurance is mandatory in a trade term, the exporter or the importer may opt not to insure the goods at his/her own risks

Depending on the international commercial terms, either the seller (the exporter) or the buyer (the importer) is responsible for insuring the cargo. The seller is obligated to insure the cargo in the CIF and CIP terms. The seller may opt not to insure the cargo at his/her own risks in the DDU and DDP terms.

The trade terms DDU and DDP are often used in the turnkey projects where the amount at stake is large. In practice, the seller usually insures the cargo in the DDU and DDP terms.

Insurance Coverage for Exports

Insurance Policy and Cover Note

Proof of insurance coverage is contained in a document known as policy or insurance policy. The format of insurance policy forms varies from insurer to insurer, but all essentially have the Institute Clauses and the same information as contained in the Insurance Application-Instructions (IAI).

The policy must be issued and signed by an insurance company or its agent. If more than one original is issued and is so indicated in the policy, all the originals must be presented to the bank, unless otherwise authorized in the letter of credit (L/C).

The sample letter of credit requires "insurance policy in duplicate ...", as such the presentation of one original and one copy (both signed) will satisfy the requirement.

Unless authorized in the letter of credit (L/C), the cover note issued by broker, which is a temporary insurance coverage pending the later issuance of an insurance policy, is not acceptable.

Insurance Coverage for Exports

Insurance Policy versus Insurance Certificate :

The insurance policy, either a specific policy or an open policy, is issued once by the insurer. In the case of the exporter holding an open policy, he/she cannot send that sole policy to all the buyers and for all the shipments made over a period of time. Therefore, in lieu thereof an insurance certificate---certificate of insurance---is issued by the exporter to each shipment. The blank insurance certificates are supplied by the insurer pre-signed and bearing the open policy number of the exporter.

Unless otherwise stipulated in the letter of credit (L/C), the insurance certificate issued under the open policy is acceptable. If the L/C specifically calls for an insurance certificate, the insurance policy is accepted in lieu thereof. In practice, the insurance policy is often used.

In the sample letter of credit the insurance policy is required, hence the bank will not accept the insurance certificate.

Insurance Coverage for Exports

Open Policy versus Specific Policy :

The open policy---blanket policy or floating policy---is issued once by the insurer under contract to cover all shipments made by the exporter over a period of time (one year usually) subject to renewal, rather than to one shipment only. It is more often used by the large exporter.

In an open policy the exporter is required to periodically (monthly usually) declare every shipment made to any location, covering any type of goods, and using any means of conveyance, including multimodal transport and transshipment, in order that the insurer may calculate the insurance premiums and invoice them accordingly. The exporter completes the insurance declaration form supplied by the insurer and/or supplies the copy of the insurance certificates (see Insurance Policy versus Insurance Certificate above) to the insurer.

Insurance Coverage for Exports

Specific Policy

The specific policy---voyage policy---is issued by the insurer to cover a particular shipment or one shipment only. The specific policy is often used in many countries. The exporter may use the Insurance Application-Instructions (IAI) or similar form to apply for a specific policy

Insurance Coverage for Exports

Thank you.